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STATE FOR NEA/IPA; NSC FOR WATERS; TREASURY FOR HIRSON

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TAGS: [ECON](#) [ETRD](#) [EIND](#) [IS](#)
SUBJECT: ISRAELI TOURISM INDUSTRY A CASUALTY OF WAR

Classified By: Economic Counselor William Weinstein for reasons 1.4(b) and (d).

SUMMARY

¶1. (C) Data from the first six months of 2006 indicates that Israel was on pace to welcome 2.6 million visitors this year, the most since 2000. Not surprisingly, the conflict with Hizballah has resulted in a dramatic decline in the number of foreign tourists. The Central Bureau of Statistics (CBS) reported that 25.2 per cent fewer tourists visited Israel in July 2006 than in July 2005. Industry experts fear that the conflict will also result in a 50 per cent drop in foreign tourism from pre-war expectations for the remainder of 2006. According to the Bank of Israel (BOI), such a decline will result in a GDP reduction of 0.4 per cent. The Ministry of Finance (MOF) recently announced a plan to compensate the tourism industry for losses due to the war. Hotel owners will receive 68 per cent of the difference between their revenues for the months of July, August and September in 2005 and the same period in 2006. Additionally, the MOF will allocate NIS 35 million to the Tourism Ministry in September for an overseas marketing campaign. Industry leaders are optimistic that domestic tourism to the north will quickly recover, but fear that foreign tourism will suffer well into ¶2007. End summary.

THE COMEBACK YEAR THAT ALMOST WAS

¶2. (SBU) Foreign tourism to Israel consistently grew each year following the Oslo Accords, peaking at 2.7 million

visitors in 2000. By 2002, tourism had dropped to a twenty-year low of 860,000 due to the violence associated with the Second Intifada. From 2004 to 2005, the number of foreign tourists increased by 27 per cent, from 1.5 million to 1.9 million. Data over the first six months of 2006 indicated that this significant upward trend was continuing, as Israel was on pace to welcome 2.6 million visitors this year.

¶3. (SBU) In 2005, the Israeli tourism industry employed approximately 75,000 workers and generated USD 2.6 billion in revenue -) about two per cent of GDP. Tourism employment was expected to increase to 100,000 by the end of 2006. (Comment: Although a small fraction of GDP, growth in the tourism industry has a significant impact among Israeli workers at the lower-end of the socio-economic spectrum who predominate in the services sector. End comment.)

INDICATORS OF THE WAR'S IMPACT

¶4. (SBU) Not surprisingly, the onset of the war in Lebanon resulted in a dramatic decline in the number of foreign tourists to Israel. According to the Central Bureau of Statistics (CBS), 25.2 per cent fewer tourists visited Israel in July 2006 than in July 2005. This figure, however, does not reflect the true impact of the decline, as tourism in the first six months of 2006 had been up 24.5 per cent from 2005. Thus, not only did the July 2006 tourism intake fall 24.5 per cent below expectations, but it also dropped 25.2 per cent below the July 2005 total. Overall, about 1.5 million foreign tourists had been expected to visit Israel between July and December before the outbreak of hostilities. Industry experts fear that the conflict will result in a 50 per cent drop in foreign tourism from pre-war expectations for the remainder of 2006.

¶5. (SBU) The Israel Airports Authority reported that total international arrivals at Ben Gurion Airport dropped by 8.2 per cent in July 2006, as compared with July 2005. During the first half of 2006, commercial airlines had actually increased the number of flights to Israel by 7.8 per cent over the comparable period in 2005 in order to meet increased demand. Consequently, the sudden drop in incoming visitors with no attendant reduction in flights has resulted in many unsold seats.

¶6. (SBU) The largest single source country of tourists to Israel has been the United States, with 457,000 in 2005. Europe collectively accounted for about one million. Ari Sommer, Israel's tourism commissioner for North and South America, estimated that approximately 35 per cent of would-be U.S. tourists had canceled their planned trips to Israel in the month following the start of the war.

¶7. (C) Foreign tourism in August was buttressed by relatively affluent French Jews, most of whom kept to their vacation plans as a show of solidarity with Israel. The CEO of the Dan Hotel chain estimated that only 15 per cent of potential French tourists had canceled their reservations across Israel as a result of the war. A spokesperson for the Tel Aviv Hilton reported an August occupancy rate of 80 per cent, compared with 100 per cent last year, with half of all occupants coming from France. The Tel Aviv Crown Plaza reported no conflict-related cancellations in August, with 87 per cent French occupancy. French tourists told Econoff that the price of a room at the five-star Tel Aviv Hilton had increased to USD 350 this year, as compared with USD 250 last summer. They complained that Israeli hoteliers had rewarded their loyalty with artificially inflated prices.

ECONOMIC DAMAGE ASSESSMENT

¶8. (SBU) At the end of July, the Galilee Tourism Forum claimed that tourism industries in northern Israel had lost

NIS 65 million (USD 14.7 million), and predicted that total losses for July will amount to NIS 123 million (USD 27.8 million), or roughly USD 2 million per day of fighting. Jossef Engel, a longtime advisor to Vice Premier Shimon Peres, told Econoff that northern hoteliers and bed-and-breakfast owners earn 60 per cent of their total year's revenue in the month of August, making the timing of the war particularly bad. Ami Etgar, head of the Israel Incoming Tourism Association, claimed that Israel has lost \$150 million in tourism revenues since the war began on July 12.

19. (SBU) In a July 25 business supplement to the Maariv newspaper, Former MOF Director General and CEO of Economic Models Consulting Yakov Sheinin predicted that the war would result in a 50 per cent decrease in foreign tourism and a GDP contraction of 0.4 to 0.5 per cent. Sheinin further assessed that foreign tourism would not return to pre-war expectations until well into 2007. An August 7 BOI survey of the first half of 2006, including an early assessment of the damage caused by hostilities in Lebanon, generally agreed with Sheinin's prediction. According to the BOI, a 50 per cent decline in incoming tourism during the third and fourth quarters of 2006 will result in a GDP reduction of 0.4 per cent.

10. (SBU) On August 29, Yediot Ahronoth newspaper reported that the Israel Hotel Association (IHA) had revised downward its projected tourism sector revenues for 2006 from USD 3.2 billion to USD 2.1 billion as a result of the war. The IHA further projected that employment in the tourism sector would drop from 100,000 to 66,000 jobs by the end of 2006. The President of the IHA, Eli Gonen, claimed that "between 80-90% of winter tourism groups have canceled their plans and we expect that there will be a catastrophe here (by the winter)." Gonen called on the GOI for an immediate injection of government funds for overseas marketing in order to stave off the "catastrophe." With such a campaign, the IHA believes Israel could still attract 2.1 million foreign visitors next year.

GOI's PLAN TO SOFTEN THE BLOW

11. (SBU) On August 3, the Ministry of Finance announced a plan to compensate the tourism industry for losses due to the war. Hotel owners will receive 68 per cent of the difference between their revenues for the months of July, August and September in 2005 and the same period in 2006. Guesthouses in the north will receive an as-of-yet undetermined amount of assistance for the month following the end of the fighting. Finance Minister (and former Tourism Minister) Avraham Hirschson, of the Kadima party, publicly called on Israelis to vacation in the north as a way of supporting their countrymen who bore the brunt of Hizballah's rocket attacks.

12. (SBU) Answering the industry's plea, Hirschson and Tourism Minister Isaac Herzog (Labor) agreed on August 30 to an immediate allocation of NIS 35 million to be used to promote Israel as a tourist destination to overseas markets. Herzog also asked for an additional NIS 65 million to use in the remainder of 2006, with a parallel budget of NIS 100 million for marketing in 2007. According to the business magazine, "The Marker," Herzog stated that the goal of the campaign is to help minimize short-term damage while maintaining Israel's long-term image as a viable tourist destination. The Tourism Ministry has also encouraged hotels and guesthouses to offer American tourists the chance to redeem canceled reservations until June 2007.

A LOOK INTO 2007

13. (SBU) Well before the conflict, industry leaders had complained to Herzog about the difficulty in attracting foreign tourists due to the rigorous security

checks/interrogations at Ben Gurion Airport. Herzog responded then that he would work with security officials to streamline the process and make visitors feel more welcome upon their arrival. The recent hostilities and continuing heightened state of alert make it less likely that Herzog will succeed in influencing Israeli security procedures.

¶14. (SBU) In late June, before the war, Pope Benedict XVI announced that he would visit Israel in 2007. The tourism industry hopes his visit will further stimulate the recovery of foreign tourism to Israel. In 2000, the visit of then-Pope John Paul II attracted nearly 800,000 Christian pilgrims to the country.

COMMENT

¶15. (C) The long-term economic fallout of the war on the tourism industry remains to be seen. For hoteliers and bed-and-breakfast owners in the north, the war arrived at the worst possible time -- during the peak tourism season. While an important site for Christian pilgrims, northern Israel is primarily a destination for domestic tourism. The Israeli public will likely respond to Hirschson's call to vacation in the north over the final weekend of summer and during the Jewish High Holy Days in the fall.

¶16. (C) The Hizballah rocket attacks did not reach far enough south to affect the most popular destinations for foreign tourists in Israel: Jerusalem, the Dead Sea, Tel Aviv, and Eilat. Still, media coverage of the war and repeated Hizballah threats to strike Tel Aviv clearly kept many foreign tourists away. However, many northern residents, seeking respite from the Katyusha threat, took vacations in Eilat, Jerusalem and Tel Aviv during the war. Although not publicly reported, these domestic tourists/refugees offset to some degree the tourism industry losses in central and southern Israel due to the drop in foreign tourism. As is the case with other industries, tourism industry leaders are projecting worst-case scenarios and likely exaggerating losses in the hopes of receiving greater compensation from the government. End comment.

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JONES